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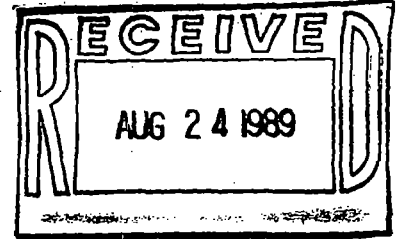
HILTON HEAD ISLAND OFFICE  
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August 21, 1989

VIA FEDERAL EXPRESS

Mr. Michael Drozd  
Gwalia (U.S.A.) Ltd.  
625 Pleasant Home Road  
Apartment 232  
Augusta, Georgia 30907



Re: Young Parcel Exchange and Title Insurance for Catawba  
and Rainsford Leaseholds

Dear Michael:

Please find enclosed the following documents:

A. With respect to the Young parcel exchange:

1. closing instructions from the Forest Service;
  2. a copy of the executed deed from the United States of America to Gwalia (USA), Ltd. conveying title to Federal Tract No. 60-D to Gwalia;
  3. a draft deed from Gwalia (USA), Ltd. to the United States of America conveying title to the Young parcel to the United States;
  4. Owner's and Contractor's Affidavit;
  5. Affidavit and Indemnity;
  6. corporate resolution of Gwalia (USA), Ltd. approving the form of deed;
  7. Secretary's Certificate as to the corporate resolution; and
- Firm Title, Inc. Invoice for the title insurance premium in the amount of \$85.00 for the United States of America and Title Insurance Financial Disclosure Form.

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B. With respect to the Catawba and Rainsford title insurance:

1. a draft Memorandum of Lease from Bowater Incorporated to Gwalia (USA), Ltd.;
2. an Affidavit as to the value of Gwalia's leasehold interest in the two tracts;
3. an invoice from Firm Title, Inc. to Gwalia (USA), Ltd. for \$1 million of title insurance on the Catawba tract for a premium of \$1,745; and
4. an invoice from Firm Title, Inc. for \$2 million of title insurance for the Rainsford Tract for a premium of \$3,245.

C. A blacklined copy of the Exchange Agreement.

#### The Young Parcel Exchange

As I relayed to you over the phone, Firm Title, Inc. is requiring a more specific corporate resolution as a condition to delivering its title insurance policy to the United States Government for the Young Parcel than was required by the Forest Service. As you may recall, the certificate which you submitted to the Forest Service solely certified that pursuant to the resolution appointing the officers of the corporation, such officers were authorized to execute documents on the corporation's behalf. The enclosed resolution specifically authorizes the execution of the deed. The Secretary's Certificate should be executed by the Secretary, attached to the resolution in the form adopted and faxed to us. Please send us the hard copy by express mail.

The deed from Gwalia to the United States Government has been drafted by the Forest Service for execution by Graham Ball. I have called the Forest Service and will endeavor to arrange for the property to be conveyed over your signature. I noted that the reserved royalty in the deed is 7% of the gross value of any produced gold and silver from the land. The Exchange Agreement provides that the royalty is 7% of any minerals produced from the tract. Please advise me if the deed language is consistent with your understanding.

The Owner's and Contractor's Affidavit is a standard document required by the title insurance company as a condition to issuing its title insurance policy without an exception for mechanics' and

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materialmen's liens. This Affidavit contains a certification by Gwalia that all persons who have furnished services, labor or materials used in the construction, repair or improvements located on the Young parcel have been paid in full, and that there are no mechanic's or materialman's liens against the property and no claims outstanding which would entitle the holder to claim a lien against the Young parcel.

The Affidavit and Indemnity is required by the title insurance company as a condition to it issuing the title insurance policy without an exception for matters which a current survey would disclose. In its closing instructions, the U.S. Government indicated that it will not accept an exception for matters a current survey would show. The survey which was revised for the parcel this January is not considered a current survey. Therefore, in order for the policy not to contain the survey exception, it will be necessary either to update the survey or for Gwalia to certify as to the matters set forth in paragraph 3 of the Affidavit and Indemnity and to agree to indemnify the title insurance company for any resulting loss. Please advise me as to which option you prefer.

The Disclosure of Financial Interest is required by South Carolina law because our law firm owns the title insurance company.

In order for us to effect the land swap, we will need the Gwalia deed, the Owner's and Contractor's Affidavit, the Affidavit and Indemnity (or an updated survey), the Secretary's Certificate and the Financial Disclosure Form executed and returned to us.

#### Title Insurance on Bowater and Rainsford Leaseholds

As for the items listed under "B" above, the Memorandum of Lease from Bowater to Gwalia (USA), Ltd. will be necessary to establish of record that the lease option described in the Exploration Agreement with Option to Lease has indeed been exercised. The document on record evidencing the Exploration Agreement with Option to Lease is not sufficient for title insurance purposes to provide record notice of your leasehold. I would suggest you forward this document to Bowater and have it executed at the same time as the Exchange Agreement is executed.

The Affidavit as to the value of Gwalia's leasehold interest in the Catawba and Rainsford tracts is the document which establishes and certifies the value of Gwalia's interest in these tracts to the title insurance company. This Affidavit is a sworn statement as to the value of Gwalia's leasehold interest in the two tracts. It is conceivable that at some time in the future the title insurance company may question your claim as to value of

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your leasehold interest in the properties. Therefore, you should maintain records as to your basis for valuation of the property.

The final two items under "B", the Firm Title Invoices, reflect the amounts of the premiums to be paid prior to the title insurance policies being issued.

In order for the title insurance policies to be issued, we will need to record the Memorandum of Lease in McCormick County and the executed Affidavit as to value. In addition, we will need the title insurance premium by check or wire transfer.

Should you have any questions or comments, please do not hesitate to contact me.

Very truly yours,

  
William M. Musser

WMM/mf

Enclosure(s)

cc: John W. Foster, Esquire (without enclosures)